

BUDGET GUIDE

Local governments exist to provide a wide range of basic services on which we all depend: police and fire protection, streets and sidewalks, water systems, garbage collection, and parks, just to name a few. The ability of a local government to provide this wide range of services rests on its financial decision-making. This document contains the City of Asheville's FY 2010-11 Adopted Budget, which is the financial plan that will guide City operations over the next year.

The City of Asheville budget document is designed to emphasize service areas instead of organizational units or funds. Five major service areas are identified in the budget document: (1) Public Safety; (2) Environment & Transportation; (3) Culture & Recreation; (4) Community Development; and (5) General Government.

The budget document is divided into the following sections:

Introduction - This section begins with the City Manager's Budget Message which highlights and explains the major budgetary issues facing the City of Asheville during the 2010-11 fiscal year. The Introduction also includes a description of the budget process and City organizational structure and a presentation of the City's financial policies.

Budget Summary - The Budget Summary section provides a detailed picture of the City's FY 2010-11 adopted annual operating budget, including information on total budget expenditures, revenues, and staffing. This section concludes with an estimate of fund balance for the City's general fund.

Fund Summary - The Fund Summary section segregates the expenditures and revenues by

fund. Detailed information is included for all City operating funds, with a focus on the City's largest fund - the general fund. This section also highlights the City's major revenue sources and summarizes the trends and assumptions that were used in developing the FY 2010-11 revenue estimates.

Service Area Summaries - The next five sections present budget data for the major service areas. Detailed budget information is included for the City departments and divisions associated with each service category. Departmental goals, objectives and performance measures are presented in this section.

Capital Improvement Program/Debt Management - The long-range Capital Improvement Program (CIP) describes planned capital improvement projects and funding sources for the next six fiscal years. This section also contains information on the City's annual debt service requirements.

Supplemental Information - The budget document concludes with a Supplemental Information section that includes a community profile, which provides demographic and economic information for the Asheville area. This section also contains a glossary of frequently used budget terms.

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CITY MANAGER'S BUDGET MESSAGE

May 11, 2010

Honorable Mayor Bellamy and City Council Members,

As we enter the third year of what has become the country's worst economic downturn since the Great Depression, it is fair to say that local governments are implementing unprecedented changes to cope with the financial crisis that represent a different way of doing business. Governments are streamlining services, containing costs, and right sizing operations across the country.

As you are aware, revenues have been down in all areas – local and State alike – and there are no reliable trends that can accurately predict when we can expect full economic recovery. In fact, many experts believe that our current financial reality might be one that is here to stay well into the foreseeable future. On the other hand, with crisis comes the opportunity to innovate and find ways to work smarter. The City of Asheville has a long history of relying on creativity and efficiency to persevere challenging times, and this year is certainly no exception.

We respectfully submit to you a the city manager's proposed annual budget for the fiscal year beginning July 1, 2010 and ending June 30, 2011 with a total operating budget of \$136,095,766. The budget includes no property tax increase, minimal service impacts to citizens, and no permanent reduction in full-time positions. In order to maximize our opportunities in the coming year, the recommended budget incorporates budget balancing strategies that focus on minimizing expenditures at every opportunity and re-engineering services to manage costs. Consequently, while the overall budget will decrease by nearly 1% this year, Asheville will be able to sustain a focus on core services and support a stable and efficient workforce.

Asheville's resilience during this economic downturn has been fortified by past financial decisions made by City Council that considered the potential for difficult times ahead. The City, as the proposed budget shows, benefited from actions taken in previous years to maintain healthy reserves and minimize increases in expenses, including a reduction of 30 full-time positions through attrition and an early retirement incentive program over the last two years. The proposed budget continues the trend of decreasing expenses and reengineering services in order to position our city to continue to provide financial stability and quality core services for our citizens.

Background and Financial Trends

In November 2009, staff presented City Council with its initial forecast for FY 2010-11 that projected a \$5.75 million shortfall in the General Fund. Much of this financial challenge stemmed from decreases in revenues and increases in costs associated with employee healthcare, retirement and the need to maintain quality services.

In January 2010, during the annual City Council strategic planning retreat, staff presented to Council a paper entitled *Asheville, NC 2010: A Financial Crossroads*. The purpose of the paper was to frame the issues and challenges facing Asheville as the city began to address its financial structure while embarking on a path to deliver the community's vision for what it wants Asheville to be. An excerpt from the paper reads:

"Over the last 50 years, Asheville has been limited in spreading the cost of supporting a regional economy over a greater proportion of the regional population....combined with the recent slowing in real estate markets and construction activity, it has become more apparent that Asheville's financial structure, particularly as it relates to addressing the vision and expectations of the population Asheville supports, is imbalanced. An increasing reliance on property taxes has not been a viable option for city leaders and city residents. Sales tax revenues declined significantly during the recent recession and show no signs of immediate recovery. Significant expenditure cuts have already been implemented, and more will certainly be necessary in the coming year."

CITY MANAGER'S BUDGET MESSAGE

The paper goes on to identify positive and proactive strategies the City can work toward to correct this imbalance over time, including combining a tradition of frugal and innovative management practices with efficient city operations. The paper highlighted early in the budget process that decisions made this year need to take into consideration challenges that will be faced in the future and ensure that decisions made today are sustainable. For instance, the proposed budget does not include an allocation from General Fund reserves, an allocation that added \$1.9 million to the FY 2009-10 budget. This decision is an important structural correction that ensures one-time revenue sources are not used for recurring expenses. In addition, we took several steps to develop a budget that is conservative yet forward thinking:

- There are no increases to the tax rate or an appropriation from General Fund reserves built into the budget;
- For a second year, there are no merit or market-based pay raises for City employees. We greatly value our staff and their contribution to the community, and the long term positive effects - job security, avoiding elimination of filled full-time positions, and future affordability during difficult and unpredictable economic times – are a far greater priority. Employees who make at or below the median area income will receive a one-time pay supplement of \$300 at the beginning of the fiscal year;
- The equivalent of 15 full-time positions will be frozen throughout the fiscal year, and temporary and contract employment has been reduced across the board to achieve savings;
- This year's budget includes a proposal to right-size community center hours and programming, which will result in the elimination of 7 part-time and/or temporary positions. This adjustment is supported by data that shows Asheville has more than double the average number of community centers and 65% more programming hours when compared to seven other benchmark cities in the state;
- The city will transition from collecting brush twice per month to collecting it once per month. Later in the year, we plan to launch the opportunity for citizens to request brush collection more than once per month through an on-demand telephone and Web-based system;
- Adjustments to the city's healthcare program will be implemented this year, including a 5% increase in premiums. The city has a long tradition of providing a generous, high quality healthcare program for employees, and these changes are necessary to ensure the city's ability to provide this important benefit is secured well into the future;
- All fixed costs and line item expenses were carefully reviewed and in many cases were reduced;
- Several new, innovative programs will be launched this year to contain costs, including the creation of a Street Cut Utility Enterprise that will allow the city to more efficiently and effectively manage street cut repairs on the behalf of utilities;
- At least one item of good news from the Federal government was a one-year continuation of transportation grant funds in the amount of \$480,000 available for use toward Asheville Transit operations, which resulted in the City being able to reduce its local subsidy for those services.

Strategic Initiatives

Over the last five years, Asheville City Council has led an annual strategic planning cycle. In January 2010, Asheville City Council adopted five strategic priorities for Fiscal Year 2010-11:

Affordable - *The City of Asheville will offer a standard of living that is affordable and attainable for people of all income levels, life stages and abilities.*

Fiscally Responsible - *The City of Asheville will create a stronger, more prosperous community with smart investments that accomplish lasting, tangible returns.*

Green & Sustainable - *Asheville will be the southeastern leader in clean energy and environmental sustainability.*

Job Growth & Community Development – *Asheville will support a dynamic and robust economy with balanced and sustainable growth.*

CITY MANAGER'S BUDGET MESSAGE

Safe - Asheville will be one of the safest and most secure communities when compared to similar cities.

Given the difficult fiscal constraints that the City is currently facing, limited resources were available in the upcoming budget year to launch new or enhanced programs related to City Council's strategic priorities. However, this recommended budget is designed to support our citizens' priorities and continue to enhance the quality of life in our community by funding the continuation of strategic programs that were launched in prior budget years. Attachment A to the Manager's Message provides detailed information about programs and initiatives funded in this year's budget that directly support the organization's strategic priorities.

The key elements of the 2010-2011 proposed budget are outlined below.

General Fund Highlights

Revenues:

- Growth in the City's tax base has averaged 3.4% over the last ten fiscal years. Based on estimates from the Buncombe County Tax Assessor, assessed value growth of only 1.5% is expected in FY 2010-11. This growth represents the smallest percentage increase in assessed value in the last ten fiscal years and reflects the impact of the recession on new construction. According to the Tax Assessor, property values were also negatively impacted by an increase in applications for programs, such as the Homestead and Veterans Exemptions and the builder improvement deferral, that allow property owners to reduce their valuations.
- With local and statewide economic activity remaining at record low levels, the City has continued to experience a decline in sales tax revenue in the current fiscal year. Sales tax revenue this fiscal year is down 8.2% through the first eight months. With sales tax revenue falling short of budget in the current fiscal year, and with the League of Municipalities projecting growth in next fiscal year of only 1.0%-2.0%, staff has budgeted a \$1.0 million decrease in sales tax revenue compared to the current fiscal year's budget. By way of comparison, the \$14.8 million in sales tax revenue expected to be received next fiscal year is approximately \$2.5 million less than the sales tax revenue that was collected in FY 2006-07, which was the last full year prior to the recession.
- Charges for Services is showing a 7.1% increase as a result of Council-approved fee increases as well as the planned 5% increase in employee health insurance premiums.
- Revenue reflected in the "Miscellaneous" category is increasing by 118.4% due to a transfer of grant dollars from a capital fund account. These funds will be transferred to the General Fund to reimburse the City for work associated with economic stimulus projects.
- As a part of the FY 2009-10 adopted general fund budget, Council approved the use of \$1.9 million in fund balance. In FY 2010-11, the City is making a significant structural correction by foregoing an allocation from General Fund reserves.

CITY MANAGER'S BUDGET MESSAGE

| <u>Revenue Sources:</u> | <u>2009-10 Budget</u> | <u>2010-11 Proposed</u> | <u>Change From Prior Year in \$</u> | <u>in %</u> |
|-------------------------|---------------------------|-----------------------------|---|--------------|
| Property Tax | 45,413,548 | 46,055,271 | 641,723 | 1.4% |
| Intergovernmental | 11,393,131 | 11,382,602 | (10,529) | -0.1% |
| Sales Taxes | 15,880,273 | 14,834,688 | (1,045,585) | -6.6% |
| Other Taxes | 330,000 | 310,000 | (20,000) | -6.1% |
| Charges For Service | 11,439,835 | 12,251,921 | 812,086 | 7.1% |
| Licenses & Permits | 4,999,049 | 5,088,537 | 89,488 | 1.8% |
| Investment Earnings | 1,014,000 | 1,014,000 | 0 | 0.0% |
| Miscellaneous | 320,093 | 698,943 | 378,850 | 118.4% |
| App. Fund Bal. | 1,898,364 | 0 | (1,898,364) | -100.0% |
| Total Revenue | <u>92,688,293</u> | <u>91,635,962</u> | <u>(1,052,331)</u> | <u>-1.1%</u> |

Expenditures:

- The FY 2010-11 budget includes general fund expenditures that are 1.1% less than the FY 2009-10 budget.
- Public Safety is the largest general fund service area, accounting for 42% of all general fund expenditures. Expenditures in this service area will remain essentially flat in FY 2010-11. Operating costs in the Police and Fire Department were reduced by a total of \$500,000. Most of this reduction occurred in the Fire Department where \$192,000 in savings came from expiring annexation contracts with rural fire departments. Also, due to the timely replacement of fire apparatus in recent budget years, there has been a decline in high dollar fleet repairs, which allowed the department to reduce its fleet maintenance account by \$75,000. In addition to the operating savings, the Police and Fire budgets also include \$375,000 in overtime reductions as a result of re-engineering efforts. The reductions in over-time are not expected to impact levels of service in the community. These reductions in operating expenses and overtime helped to offset the increases in the retirement system contribution and health care.
- Environment & Transportation is the second largest service area in the general fund, representing 17% of the FY 2010-11 general fund budget. The budget for this service area shows a \$700,000 or 4.3% decrease. With the increase in the parking fund subsidy to the transit fund, staff was able to reduce the general fund subsidy to transit by approximately \$230,000. Savings of \$250,000 will also be realized in the Public Works Department as a result of a re-engineering of the residential brush collection program, which will result in the elimination of 3.0 FTE positions. The general fund portion of the Public Works budget also includes \$150,000 in savings associated with the creation of the street cut utility fund. Finally, the Transportation Department's budget was reduced by \$130,000 via line-item reductions and by holding vacant the Assistant Transportation Director position.
- A series of departmental reorganizations were implemented after adoption of the FY 2009-10 budget which reshuffled expenses between the General Government, Culture & Recreation, and Community Development services areas. In addition, \$300,000 in building maintenance funding which previously was accounted for in capital reserve funding was moved under the Building Safety Department, and therefore is now accounted for under the Community Development service area. When the FY 2009-10 adopted budgets for General Government, Culture & Recreation, Community Development, and capital reserve funding are combined and compared to the FY 2010-11 proposed budgets, the FY 2010-11 proposed budgets show a \$300,000 decrease compared to the FY 2009-10 adopted budgets.

CITY MANAGER'S BUDGET MESSAGE

- Personnel costs, including both salaries and wages and fringe benefits make up 63% of the FY 2010-11 general fund budget. The proposed personnel budget includes funding for a one-time \$300 payment in July to all full-time employees earning at or below the Asheville area median income of \$41,722. The budget does not include funding for merit or market-based pay increases. The general fund personnel budget includes a \$1.8 million increase in fringe benefit expenses due to rising health care costs and the State-mandated increase in the City's contribution to the state retirement system. The increases in benefit costs were offset by reductions in salary and wage expenses. Most of the reduction in salaries and wages was achieved by implementing a selective hiring freeze, which will save approximately \$878,000. The selective hiring freeze targets the equivalent of 15 management and development review positions, but does not include public safety positions or public works field positions. Another significant amount of salary savings is being realized in the Police and Fire Departments, where re-engineering efforts have led to an overall reduction of \$375,000 in overtime. Salaries and wages are also being reduced by \$385,000 in the Parks and Recreation Department, where programming hours are being reduced at community centers and childcare programs are being consolidated.
- \$300,000 in building maintenance costs, which were accounted for in the capital outlay category in FY 2009-10, were moved to the operating cost category in FY 2010-11. Taking into account this technical adjustment, operating costs in the FY 2010-11 proposed budget are essentially flat compared to the FY 2009-10 adopted budget.
- General fund debt service is also flat compared to FY 2009-10. The proposed budget does include the issuance of approximately \$1.2 million in new debt in FY 2010-11 to fund the replacement of a fire aerial ladder. The estimated annual debt service for this purchase is \$230,000.
- Adjusting for technical changes, the general fund contribution to the capital reserve fund is remaining flat compared to FY 2009-10. There was a slight decrease in small capital budgets as departments made belt-tightening reductions to help balance the FY 2010-11 budget.
- Interfund transfers are budgeted to decrease by \$250,000 in FY 2010-11. Most of this decrease (\$230,000) is a result of the reduction in the general fund subsidy to the transit fund. Also, with the elimination of the Film Festival from the budget, and no increase projected for operating expenses for the other festivals, staff is able to reduce the general fund subsidy to the festivals fund by approximately \$22,000.

| <u>Expense Category:</u> | <u>2009-10 Budget</u> | <u>2010-11 Proposed</u> | <u>Change From Prior Year in \$</u> | <u>in %</u> |
|---------------------------|---------------------------|-----------------------------|---|---------------------|
| Salaries & Wages | 43,123,462 | 40,836,760 | (2,286,702) | -5.3% |
| Fringe Benefits | 14,880,912 | 16,694,228 | 1,813,316 | 12.2% |
| Operating Costs | 24,363,175 | 24,593,664 | 230,489 | 0.9% |
| Interfund Transfers | 1,748,872 | 1,497,442 | (251,430) | -14.4% |
| Debt Service | 5,429,922 | 5,434,922 | 5,000 | 0.1% |
| Capital Outlay | 3,141,950 | 2,578,946 | (563,004) | -17.9% |
| Total Expenditures | <u>92,688,293</u> | <u>91,635,962</u> | <u>(1,052,331)</u> | <u>-1.1%</u> |

CITY MANAGER'S BUDGET MESSAGE

Fund Balance Analysis

The City ended FY 2008-09 with available fund balance equivalent to 18.7% of FY 2008-09 expenditures. As a part of the FY 2009-10 adopted general fund budget, Council approved the use of \$1.9 million in fund balance. Since the start of the current fiscal year, Council has approved the use of another \$518,105 in fund balance; bringing the total FY 2009-10 fund balance appropriation to \$2.6 million. Based on current year-end revenue and expenditure estimates for FY 2009-10 staff is projecting that available fund balance will decrease to 14.5% of estimated year-end expenditures. The City's Financial Management Policy recommends that the City maintain a fund balance equal to 15% of the current-year budget expenditures. Given the severity of the current economic recession and no clear indication when growth may return to normal levels, coupled with the fact that Asheville faces some long-term structural budget issues, such as the inability to charge differential water rates and aging infrastructure, staff is recommending that no appropriation from fund balance be made as a part of the FY 2010-11 general fund budget.

Other Funds

Water Resources Fund

- The FY 2010-11 budget includes a 5% increase in water rates and the capital improvement fee. The 5% increase in water rates will allow the fund to continue current operations, meet debt service obligations, and provide a 1% Sullivan Act Transfer to the General Fund for water-related capital infrastructure improvements.
- Even with the rate increase, water revenues are essentially flat compared to the current year budget. This is due to the fact that there has been a 9% decrease in water consumption as customers have conserved more water and water usage for irrigation has declined as a result of the wet weather. This trend is expected to continue into next fiscal year. There has also been a 47% decrease in tap/connection fees because of the recession. Revenue has also been impacted due to the loss of the City of Hendersonville as a wholesale water customer.
- The capital outlay category includes \$5.6 million for water capital improvement projects, \$352,000 for rolling stock replacement, and \$200,000 for small capital equipment. The capital outlay category also includes the \$341,000 Sullivan Act transfer to the General Fund that is mentioned above. This \$341,000 will be coupled with the \$1.65 million transferred in the current fiscal year to provide a total of \$2.0 million for infrastructure improvements along Azalea Road.
- Six FTE positions in the water maintenance division that were responsible for repairing street cuts made by the Water Department will be moved to the new Street Cut Utility Fund.

Parking Services Fund

- The FY 2010-11 budget includes \$500,000 for a possible debt service payment on the Biltmore Avenue parking deck. If no debt service payment is needed, this funding will flow back into the Parking Fund's fund balance.
- The transfer from the Parking Fund to the Transit Services Fund is being increased by approximately \$234,000. \$125,000 of this amount represents an ongoing adjustment to the transfer to cover increased expenses in the Transit Fund. The other \$109,000 is a one-time increase to provide funding that will allow for the continuation of all existing transit evening routes. In order to fund this one-year increase in the transfer, \$109,000 is being appropriated from the Parking Fund fund balance. This level of appropriation will allow the Parking Fund to maintain adequate reserves in anticipation of future parking garage construction.

CITY MANAGER'S BUDGET MESSAGE

Transit Services Fund

- In FY 2010-11, the City will continue to receive the same level of federal operating support (\$484,000) for transit that it has over the last several years. However, given the City's current Census classification, there is no guarantee that the City will receive this level of federal support in future budget years.
- The parking fund subsidy is being increased by approximately \$234,000. \$125,000 of this amount represents an ongoing adjustment to the transfer to cover increased expenses in the Transit Fund. The other \$109,000 is a one-time increase to provide funding that will allow for the continuation of all existing transit evening routes.
- Staff is proposing in the budget that the gap between day and evening service be eliminated and that evening service end at 10:30 pm. This schedule adjustment, which was recommended in the Transit Master Plan, will reduce costs by approximately \$65,000.
- With the increase in the parking fund subsidy and the savings from the schedule adjustment above, staff was able to reduce the general fund subsidy to transit by approximately \$230,000.

Stormwater Fund

- An MEO position and a Labor Crew Supervisor position are eliminated from the budget, resulting a decrease of 2.0 FTE positions.
- The Stormwater Fund will be issuing debt in FY 2010-11 in order to fund \$2.3 million in major capital projects. The total estimated debt service on this issuance is \$190,000. This amount is included in the operating budget for next fiscal year.
- A portion of the debt funding will be transferred to the operating fund to reimburse for staff time spent on those projects. A similar reimbursement mechanism will be used for staff time spent on Recovery Act projects. In total, staff is estimating that \$200,000 in reimbursements from capital and grant funds will be received in FY 2010-11. This reimbursement is included as a revenue in the Stormwater operating budget.

Street Cut Utility Fund

- Historically, public utility companies, such as the Metropolitan Sewerage District (MSD), and Public Service Natural Gas (PSNC) have obtained permits from the City for street cuts and then contracted with private companies to repair the cuts. The City of Asheville Water Department also obtained permits and then used their own crews to repair the cuts. The utility companies have expressed concern over the current street cut process. Based on these concerns, the City is proposing to create an internal city function in the Public Works Department specifically to repair street cuts and charge the utilities companies for the street cut repair work.
- The Water Department crew that previously handled street cut repair will be transferred to this new Street Cut enterprise fund. The Water Department will then be billed for their street cut repair work as the private utility companies are billed.
- Two existing General Fund street crews will devote half their time to this new utility cut repair program. This will result in a savings to the General Fund of approximately \$150,000.
- In order to ensure that staffing is adequate to meet demand, six additional FTE positions that were not previously a part of the budget will be added in FY 2010-11.

CITY MANAGER'S BUDGET MESSAGE

Civic Center Fund

- During FY 2009-10, the Civic Center Director and Economic Development Director positions were combined, which resulted in an overall savings of approximately \$73,000 between the General Fund and the Civic Center Fund.
- With operating expenses and revenues expected to remain nearly flat in FY 2010-11, the General Fund subsidy required to balance the Civic Center Fund budget will also remain essentially unchanged in FY 2010-11.

Festivals Fund

- Based on staff's recommendation, which was endorsed by the Planning and Economic Development Committee, the Film Festival will not be held during 2010. During this one-year hiatus, staff will explore the possibility of privatizing future productions of the Film Festival.
- With the elimination of the Film Festival from the budget, and no increase projected for operating expenses for the other festivals, staff is able to reduce the general fund subsidy by approximately \$22,000.

Golf

- The Golf Fund budget is adjusted downward by 8.0% in order to match expenditures with expected revenues. No General Fund subsidy is budgeted in FY 2010-11.

Conclusion

The City of Asheville's Budget and Research Division coordinates the city's budget process every year. I would like to take this opportunity to thank the staff in this division, Tony McDowell and John Sanchez, and recognize their assistance and cooperation. I would also like to recognize the efforts of our department directors and employees in all departments; this was another year of difficult choices, but in the end, we have a budget proposal that conveys a predictable and affordable tax rate along with a dependable workforce and reliable core services.

It is also with great appreciation that I thank you, our Mayor and City Council members, for the thoughtful and mindful dialogue and direction you have provided, along with the feedback necessary to prepare the proposed budget. The support of City Council and your insightful decision-making and planning have aided in the advancement of significant actions taken, on all levels of the organization, to minimize the impact of financial conditions on our workforce and our community. As a result, we are better positioned to come out of this financial situation prepared to serve our citizens and grow our organization in a meaningful way.

Sincerely,



Gary W. Jackson
City Manager

CITY MANAGER'S BUDGET MESSAGE

ATTACHMENT A

Strategic Initiatives

Affordable - *The City of Asheville will offer a standard of living that is affordable and attainable for people of all income levels, life stages and abilities.*

- The FY 2010-11 budget recommends \$300,000 in General Fund support for the Housing Trust Fund, a dedicated low-interest loan pool set aside for the development of affordable housing.
- In the coming year, staff will proposed density bonuses for affordable, sustainable housing developments that take into account broader issues of affordability, including access to public transit and energy efficiency.
- The City of Asheville will continue to address chronic homelessness by providing tenant-based rental assistance coupled with support services to keep people housed. Funding for these services come from a variety of sources, including Community Development Block Grants (CDBG) and Homelessness Prevention and Rapid Re-Housing (HPRP).

Fiscally Responsible - *The City of Asheville will create a stronger, more prosperous community with smart investments that accomplish lasting, tangible returns.*

- The City of Asheville remained committed to holding the line on property taxes in FY 2010-11 to support our citizen's ability to affordably live and work in the community. No property tax increase is recommended in this budget.
- The City will maintain a healthy General Fund fund balance of approximately 14.5% in FY 2010-11, which is in accordance with State standards that requires an 8% fund balance.
- Throughout FY 2009-10, staff worked to secure more than \$8 million in economic stimulus funds for projects and initiatives in Asheville. Staff will continue to pursue new stimulus opportunities that become available in FY 2010-11 while managing the implementation of several projects that received funding in the prior year.
- Phase 1 of the Business Technology Improvement Project (BTIP) was deployed on schedule on January 4, 2010. The City's core financials are now on the new system, with process improvements in areas such as a paperless departmental budget submission process. The \$2 million project is on budget. Next steps of the project include replacement of the City's payroll and human resources information system, with anticipated deployments in winter 2011.

Green & Sustainable - *Asheville will be the southeastern leader in clean energy and environmental sustainability.*

- The proposed FY 2010-11 budget includes continued funding for the sustainability/energy program.
- During FY 2010-11, the city will complete several energy efficiency projects funded by Energy Efficiency and Conservation Block Grants (EECBG), including the City Hall lighting retrofit project, installing a more energy efficient HVAC system at the Asheville Civic Center, implementing solar thermal projects at two fire stations, weatherizing a third fire station, and completing an IT server virtualization project.
- The proposed budget includes \$250,000 in EECBG grant funds to potentially be used toward launching a pilot Property Assessed Clean Energy (PACE) financing program. A preliminary program design is currently under development for future City Council consideration.
- \$5.6 million will be invested in capital projects for the city's water system. An automatic meter reading project is included in this budget, which will be a multi-year project that will result in significant operational efficiencies upon its completion.
- The FY 2009-10 budget continues the City's commitment to repair aging infrastructure by continuing to provide \$250,000 for capital improvements at the Civic Center and \$952,300 for street and sidewalk maintenance.

CITY MANAGER'S BUDGET MESSAGE

Job Growth & Community Development – *Asheville will support a dynamic and robust economy with balanced and sustainable growth.*

- The proposed budget supports the city's strategic partnership with UNC Asheville. The budget includes a \$100,000 economic incentive for the UNC Eshelman School of Pharmacy's plan to expand its pharmacy-education program to UNC Asheville. The city is participating in a \$2.5 million fund-raising initiative spearheaded by the Asheville Area Chamber of Commerce and supported by the Buncombe County Board of Commissioners, which has pledged \$600,000 toward that goal.
- The city continues to support diversified job growth and small business development by providing access to capital to small businesses through allocation of CDBG funds to Mountain Biz Works.
- The City's Office of Economic Development is providing staff support for the new Riverfront Redevelopment Commission, which furthers the city's partnership in regional economic development.
- The City's Minority Business Program, which is funded through the Office of Economic Development, provides outreach and assistance in helping historically underserved businesses achieve certification through the Statewide Uniform Certification Program.
- Staff is bringing forward regulatory changes to implement the design standards included in the Downtown Master Plan for City Council consideration in early FY 2010-11. These standards, built upon extensive community input, are significant milestones in implementing the Downtown Master Plan process.
- To support the City's goals reformatting the Unified Development Ordinance so that it is easy to read and understand, staff will bring forward in the upcoming fiscal year a table of uses for the UDO.

Safe - *Asheville will be one of the safest and most secure communities when compared to similar cities.*

- The Downtown Patrol Unit will continue its second year of operation, providing targeted community policing and crime prevention services in Asheville's downtown area. A new downtown police substation supporting this unit is located in the heart of downtown near the corner of Haywood Street and Battery Park Avenue.
- The proposed budget includes funding for the second year of the nuisance court program, including funding for court services and community service supplies and materials. This innovative program was launched in the previous year to ensure accountability and restitution for nuisance crimes committed in Asheville.
- The City of Asheville Youth Leadership Academy is fully funded in the FY 2010-11 budget. In addition, the program is receiving a donation that will allow the program to increase its student capacity by 50%. The city's contribution along with funds provided by partner organizations will provide the opportunity for 30 high school students to complete the program this year.
- The city will enter its fourth year of implementation of the community-based West Riverside Operation Weed & Seed crime prevention strategy. As part of the strategy, the city will enter the third funding cycle of operating 21st Century Community Learning Center sites where academic and enrichment opportunities are provided during non-school hours for middle school age children, particularly students who attend high-poverty and low-performing schools. The Weed & Seed initiative is expected to serve more than 125 youth through contracted service providers within the Weed & Seed designated area. The 21st CCLC program is budgeted to serve 100 youth and will continue to focus on the Weed & Seed area but will also expand services to other areas of the city.

ORGANIZATIONAL STRUCTURE

Fund Accounting

The accounts of the City of Asheville are organized and operated on the basis of funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Funds included in the City of Asheville Adopted budget can be grouped into two types: governmental funds and proprietary funds. Governmental funds are those through which most functions of the City are financed. Proprietary funds are used to account for City activities that are similar to those often found in the private sector. Specific City of Asheville funds include:

General Fund

The General Fund is a governmental fund that encompasses most of the City's day-to-day operations, such as police, fire, refuse collection, street maintenance, and parks and recreation. General Fund operations are primarily funded through property tax dollars, but are also supported through sales tax revenue, charges for service, license & permit fees, and investment earnings.

Enterprise Funds

Enterprise Funds are proprietary funds used to account for activities that operate like private businesses, where expenses are primarily financed by revenues derived from user charges. For the City of Asheville, these funds include:

- Transit Services Fund
- Parking Services Fund
- Water Resources Fund
- Civic Center Fund
- Festivals Fund
- Stormwater Fund
- Golf Fund

Capital Funds

Capital Funds are used to account for capital replacements and improvements. Funding is provided from operations, federal or state grants, or long-term financing and may be annual appropriations or project appropriations. Appropriations are approved through the Capital Improvement Plan process. Capital Funds include:

- General Capital Projects Fund
- Street and Sidewalk Improvement Fund
- Community Development Fund
- Water Major Capital Improvement Fund
- HOME Fund
- Civic Center Capital Fund
- Parking Services Capital Fund
- Transit Services Capital Fund

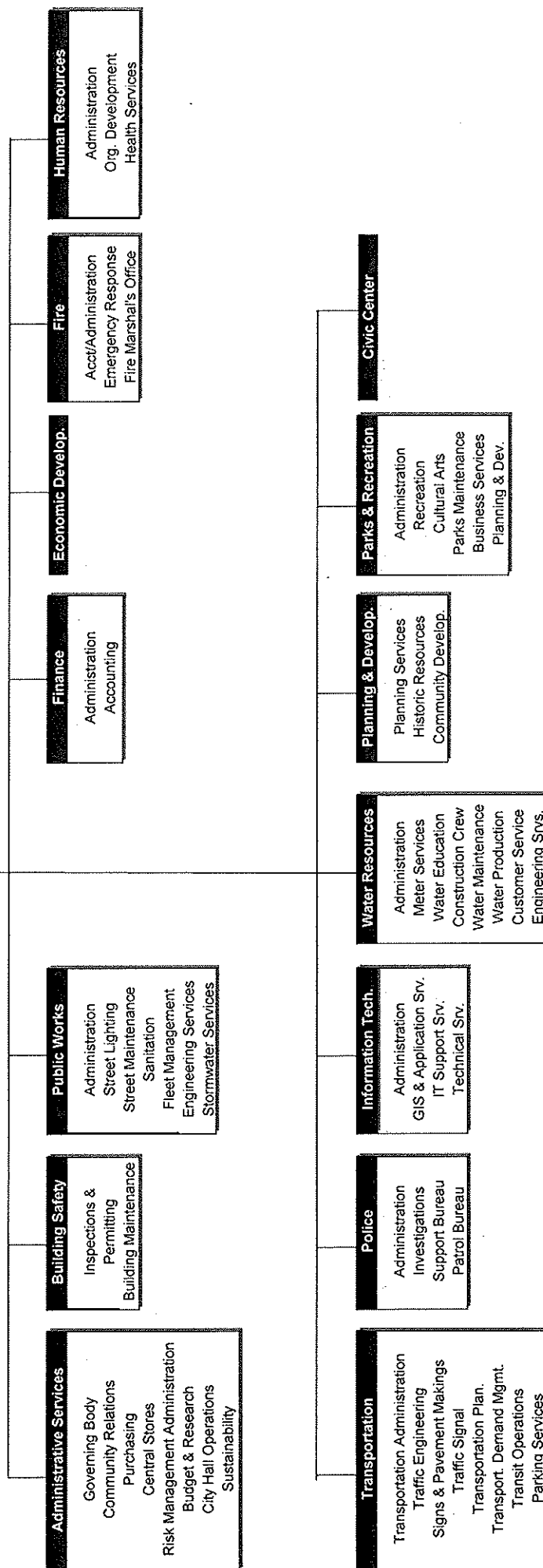
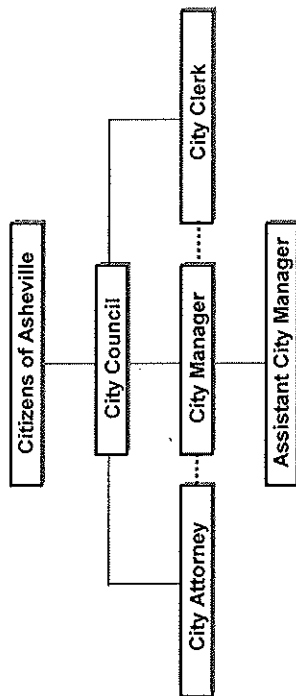
How Funds Interact

City funds interact in a variety of ways. Expenses that occur in one fund are frequently incurred to benefit another fund. When this occurs, the benefiting fund may reimburse the fund providing the goods and services. Examples of such transactions include general government services provided by the General Fund to the Water Resources Fund. Interfund transfers may also result from the exchange of resources between funds to cover operating and capital expenses. For example, the FY 2010-11 budget includes a transfer from the General Fund to the Civic Center Fund to support operations. Transfers between funds result in the budgeting of dollars in both participating funds.

Departments & Divisions

Departments are organizational units that provide a major type of public service, such as fire or police protection. Departments are usually subdivided into one or more divisions. For instance, the police department consists of four divisions: administration, criminal investigations, support bureau, and patrol bureau. Often within each division there are smaller units responsible for performing specific activities. For example, within the police patrol division is the K-9 patrol team and the anti-crime team.

A City organizational chart is presented on the following page.



Department
Divisions

BUDGET PROCESS

Budget Preparation Overview

Budget preparation affords departments the opportunity to reassess their goals and objectives and the strategies for accomplishing them. Even though the budget may be heard by City Council in May and Adopted in June, its preparation begins at least six months prior with projections of City reserves, revenues, and financial capacity. It is against this backdrop that departmental expenditure requests are formulated and reviewed. The FY 2010-11 Budget Calendar is displayed on page 16.

Financial Forecasting

The annual budget process begins with the Budget Office preparing revenue and expenditure projections. These projections serve as the framework for financial decision-making during the City's annual strategic planning and budgeting process. The Budget Office updates the City's general fund forecast annually to adjust for changes in local, state, and national economic conditions and trends; changes in City Council priorities and policies; and other variables that might affect the City's ability to provide needed services and maintain its financial health in future years.

City Council Strategic Planning

Linking important objectives with necessary resources requires a process that identifies key goals at the very beginning of budget preparation. The annual strategic planning process begins with the City Council Retreat in late January, at which time Council identifies its goals and priorities for the upcoming fiscal year. The Council's directives set the tone for the development of the annual budget.

Departmental Budget Development

Departments begin developing their budget requests in January. During this phase, departments are encouraged to thoroughly review all programs and services assessing their "value" and priority to the citizens of Asheville. Examination of current departmental programs or positions for possible trade-offs, reduction, or elimination is strongly suggested.

Any new programs or services that departments would like funded are submitted to the Budget Office as expansion requests. Expansion requests identify the program's purpose, costs, objectives, and Adopted funding sources. The expansion request also describes how the new or enhanced program is linked with overall Council priorities. Departments are encouraged to prioritize their expansion requests and only submit a limited number of requests each year.

In addition to the budget worksheets and expansion request forms, departments are required to submit the following information to the Budget & Research Office:

- *Low Priority Services.* Each department is required to submit a list of existing programs and services that could be eliminated, reduced or scaled back. These services can be used as possible "program trade-offs," allowing departments to shift resources from low priority services to new or enhanced services in order to maximize budget target allowances.
- *New or Increased Fees.* Proposals for new or increased user fees are also submitted with the departmental budget request packages. Some or all additional revenue generated from new or enhanced fees may also be used as a way to maximize departmental target allowances.
- *Performance Objectives & Measures.* Performance measures are used to report on the achievements, impacts and outcomes of key City programs. Departments submit an update of their performance objectives and measures during the budget process. Departments report on prior year performance, update current year estimates, and set targets for the upcoming fiscal year. Departments are also encouraged to continually evaluate and refine their performance indicators to ensure that they accurately reflect the organization's mission and priorities.

BUDGET PROCESS

City Manager Review

Once the Budget Office has completed its technical review of the budget, department directors meet with the City Manager in team sessions to discuss the operating and capital budget requests. Expansion requests are evaluated based on the City's financial capacity and on how they relate to City Council priorities. In most years, monies exist to fund only a small number of expansion requests. Following these senior management sessions, a citywide Adopted operating budget is developed.

Budget Adoption

The City of Asheville adopts its annual operating budget in accordance with North Carolina General Statutes (N.C.G.S. 159 - Local Government Budget and Fiscal Control Act). These statutes require that City Council adopt a balanced budget in which estimated revenues and appropriated fund balances equal expenditures. The City Manager must submit a balanced budget proposal to the City Council by June 1 of each year, and City Council must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain taxpayer comment before City Council adopts the budget. By state law, the fiscal year begins on July 1 and ends on June 30.

Budget Amendments & Revisions

After the Budget Ordinance is enacted, state law permits City Council to amend it at any time during the fiscal year. Each amendment must continue to adhere to the balanced budget statutory requirements. Amendments may in no way change the property tax levy or alter a taxpayer's liability.

Budget revisions are transfers within a departmental budget not affecting the total departmental appropriation or fund total. Budget revisions do not require City Council approval.

Basis of Budgeting

As required by the North Carolina Local Government Budget & Fiscal Control Act, the budget is prepared and Adopted using the modified accrual basis of accounting. Briefly, this means that obligations of the City are budgeted as expenditures, but revenues are recognized only when they are measurable and available. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Those revenues susceptible to accrual include: investment earnings, sales tax, and grants-in-aid earned.

During the year, the City's accounting system is maintained on the same basis as the Adopted budget. This enables departmental budgets to be easily monitored via monthly accounting system reports. At year-end, the City's Comprehensive Annual Financial Report (CAFR) is prepared on a basis consistent with "generally accepted accounting principles" (GAAP). This basis of accounting conforms to the way the City prepares its budget, with a couple of notable exceptions. One, certain items that are referred to as revenues and expenditures in the budget are included as other financing sources and uses in the CAFR. In addition, for financial statement presentation, proprietary funds are adjusted to the full accrual basis. The most significant differences between budget and CAFR for proprietary funds are: a) capital outlay & debt service principal payments are recorded as expenditures for budgetary purposes as opposed to adjustments of balance sheet accounts in the CAFR (GAAP); and b) depreciation is recorded as an expense in the CAFR (GAAP) and not recognized for budgetary purposes.

All outstanding encumbrances on the accounting system on June 30 are carried over into the next year's budget. Outstanding encumbrances at year end do not constitute expenditures or liabilities.

FY 2010-11 BUDGET SCHEDULE

| <u>Event</u> | <u>Date</u> |
|---|-------------------------------|
| Operating Budget Process Begins (Budget Work Papers Provided to Departments) | <i>January 4</i> |
| Departmental FY 2010-11 Budgets Submitted to Budget Office | <i>February 1</i> |
| Technical Budget Reviews with Departments | <i>February 2 – 26</i> |
| 2 nd Quarter Financial Report & FY 2010-11 Budget Briefing | <i>February 10</i> |
| City Manager & Management Team Budget Preparation | <i>March 1 – March 26</i> |
| Finance Committee Reviews Fees & Charges Requests | <i>March 4</i> |
| City Council Budget Updates | <i>March 9 & March 23</i> |
| FY 2010-11 Fees & Charges adopted by City Council | <i>April 13</i> |
| Budget Finalization | <i>April 1 - April 26</i> |
| City Council Budget Update | <i>April 27</i> |
| Budget Document Preparation | <i>April 28 – May 10</i> |
| Formal Budget Presentation/Set Public Hearing | <i>May 11</i> |
| Budget Worksession/Public Hearing/ 3rd Quarter Financial Report | <i>May 25</i> |
| Budget Adoption | <i>June 22</i> |

FINANCIAL POLICIES

A. Revenue Policy

1. As provided by the North Carolina Local Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows:
 - a) Assessed valuation shall be estimated based on historical trends and growth patterns in a conservative manner.
 - b) The estimated rate of collection of the levy shall not exceed the rate of the preceding fiscal year.
 - c) The tax rate shall be set each year based on the cost of providing general government services. Rates shall be adjusted periodically, but shall not result in revenues exceeding a 5% annual growth in Ad Valorem Tax revenues excluding growth in valuation or an increased collection rate.
2. The City sets fees that will maximize user charges in lieu of Ad Valorem Taxes for services that can be individually identified and where the costs are directly related to the level of service:
 - a) To the extent possible, user charges for water, sewer and downtown parking will be sufficient to finance all operating, capital and debt service costs for said services.
 - b) The Civic Center will operate in a manner such that 90% of budgeted operating costs will be financed through user charges. A profit and loss statement will be prepared for each event for evaluation of cost recovery.
 - c) Recreational programs will be funded from user charges for all programs for which it is practical to charge. User charges should represent at least 10% of the total recreational budget.
 - d) Building and code enforcement activities will be funded through user charges in the form of building permits, inspections, and plan review fees. These fees should represent 100% of operating costs.

e) To the extent practical, any general city service, which is of a higher level or benefits specific recipients, shall be supported by user fees designed to recover costs from such recipients.

f) Where user fees are based on cost recovery, said costs shall be reviewed annually and fees adjusted as practicable.

3. The City will project revenues for five years and will update the projections annually.

B. Operating Budget Policy

1. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriated shall not exceed an amount that management can reasonably expect to save during the year.
2. Debt or bond financing will not be used to finance current expenditures.
3. The City will begin to develop a program to integrate performance measures and productivity indicators with the annual budget.
4. The City will prepare a five-year operating budget projection which will include projections of annual growth plus allowances for operating costs of new capital facilities.
5. The City will establish a risk management program to provide for protection against loss and a reduction in exposure to liability. The City will investigate the establishment of a self-insurance program to provide for protection against major loss in excess of an appropriate amount with excess coverage being purchased to cover catastrophic loss. The establishment of a comprehensive safety program will also be investigated to minimize the City's exposure to liability and thereby reduce the number of claims filed.
6. The City will maintain a capital reserve fund to replace all vehicles and other capital outlay items with a life of more than one year and a value of \$7,500 or more. Revenue equivalent to 7.0 cents on the tax rate and 60% of one-half cent sales tax will be appropriated annually to this fund.

FINANCIAL POLICIES

7. The City will maintain a street & sidewalk reserve fund to provide for upgrading the City's street, sidewalk, and storm drainage systems. Revenues equivalent to 4.1 cents on the tax rate and Powell Bill revenues will be appropriated annually to this reserve.
8. It is the City's policy not to fund requests from outside organizations which provide social services or services which are County-wide in scope.
9. It is the City's policy that all general fund balance exceeding 15% of expenditures shall be earmarked for capital reserve purposes.
10. It is the City's policy that the operating budget be prepared in accordance with Generally Accepted Accounting Principles.

C. Capital Improvement Policy

1. The City will update and readopt annually a six-year capital improvement program which details each capital project, the estimated cost, description and funding source.
2. The capital improvements plan should be tied to the City's comprehensive growth plan, "City Plan 2025," to ensure that the capital items requested meet the future growth needs for the City.
3. Operating expenditures will be used to maintain the Capital Improvements Program and provide all salaries, operating costs, and small capital outlay required.

D. Accounting Policy

1. The City will establish and maintain the accounting systems according to the North Carolina Local Budget and Fiscal Control Act.
2. An annual audit will be performed by an independent public accounting firm which will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required.

3. Full disclosure will be provided in the financial statements and bond representations.
4. Financial systems will be maintained to monitor expenditures and revenues on a monthly basis.
5. All revenue collections will be consolidated under the Director of Finance and be audited at least annually.
6. The City's annual financial report will be prepared according to the standards necessary to obtain the Certificate of Achievement of Excellence in Financial Reporting from GFOA and submitted each year for the recognition.
7. The City's Fiscal Procedures Manual will be maintained as a central reference point and handbook for all activities which have a fiscal impact within the City and will serve as the City's authoritative source for fiscal procedures.

E. Debt Policy

1. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
2. The general obligation debt of the City of Asheville will not exceed 8% of the assessed valuation of the taxable property of the City.
3. Total debt service on tax-supported debt of the City will not exceed 15% of total general government operating revenue.
4. Interest, operating, and/or maintenance expenses will be capitalized only for facilities of enterprise activities and will be strictly limited to those expenses incurred prior to actual operation of the facilities.
5. The City will maintain its financial condition so as to maintain a minimum AA bond rating.
6. The City's debt policy will be comprehensive and the City will not knowingly enter into any contracts creating significant unfunded liabilities.

FINANCIAL POLICIES

F. Reserve Policy

1. The City will maintain an unallocated fund balance to be used for unanticipated emergencies of 15% of the general operating budget (excluding capital outlay). These funds will be used to avoid cash-flow interruptions, generate interest income, eliminate need for short-term borrowing, and assist in maintaining an investment-grade bond rating.
2. The City will establish a contingency reserve to provide for unanticipated expenditures of a nonrecurring nature or to meet unexpected increases in service delivery costs. This reserve will be budgeted at 1.5% of the general fund revenues estimated for that fiscal year.
3. The City will maintain a two-to-one ratio of total current assets over total current liabilities in all enterprise funds.

